

(b)(1)
(b)(3)

SECRET

NATIONAL INTELLIGENCE ESTIMATE

ISRAEL

SECRET

NIE 35-72

29 June 1972

APPROVED FOR RELEASE DATE:
23-Sep-2008

~~SECRET~~

THIS ESTIMATE IS SUBMITTED BY THE DIRECTOR OF CENTRAL INTELLIGENCE AND CONCURRED IN BY THE UNITED STATES INTELLIGENCE BOARD.

The following intelligence organizations participated in the preparation of the estimate:

The Central Intelligence Agency and the intelligence organizations of the Departments of State, Defense, and the Treasury, and the NSA.

Concurring:

The Deputy Director of Central Intelligence
The Director of Intelligence and Research, Department of State
The Director, Defense Intelligence Agency
The Special Assistant to the Secretary of the Treasury
The Director, National Security Agency
The Assistant General Manager, Atomic Energy Commission

Abstaining:

The Assistant Director, Federal Bureau of Investigation, the subject being outside of his jurisdiction.

WARNING

~~This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited.~~



~~SECRET~~

~~SECRET~~

NIE 35-72

ISRAEL

~~SECRET~~

CONTENTS

	Page
NOTE	1
CONCLUSIONS	2
DISCUSSION	5
I. THE ATMOSPHERE	5
II. MILITARY PROGRAMS	6
A. Forces Envisaged	6
B. Procurement and Production	7
Aircraft	7
Missiles and Other Weapons	8
III. HANDLING THE ARABS	10
IV. THE KNESSET ELECTIONS OF 1973	11
A. The Leadership	12
B. Impact on Domestic Policy	13
V. RAMPANT PROSPERITY	16
VI. SOME SOCIAL CHALLENGES—IDEOLOGIES AND REALITIES ..	20
VII. RELATIONS WITH OUTSIDE POWERS	22
ANNEX A	
ANNEX B	

~~SECRET~~

ISRAEL

NOTE

This paper discusses likely developments in Israel during the next several years, with particular emphasis on major policy-related issues such as defense procurement plans and economic prospects. Israeli attitudes relating to the chances for a breakthrough in peace negotiations or for a major eruption of fighting are discussed in paragraphs 18-20 and 60. Judgments elsewhere in the paper are predicated on continuation of something like the existing no-peace, no-war situation.

~~SECRET~~

~~SECRET~~

CONCLUSIONS

A. Security considerations override all other aspects of Israeli policy and influence all areas of Israeli life. Israelis today are confident that military preparedness will insure the future survival of the state, although deeply ingrained fears and uncertainties remain.

B. The Israeli effort to attain economic and military self-sufficiency has necessitated a short-run increase in Israeli dependence on the US. Israel has purchased aircraft and other weapons in the US and has embarked on programs to produce its own supersonic fighters, missiles, tanks, and a wide range of other armaments. By the mid-1970s, it will be making most of the items needed by the Israeli Defense Forces and will be substantially independent of foreign arms suppliers; imports of finished arms and equipment will slow significantly.

C. In the process, arms production and exports will become increasingly important to the economy. If Israel succeeds in finding foreign buyers for the weapons it does not need itself, its foreign exchange requirements could begin to decline. However, the Israelis will face stiff competition from other suppliers who have substantial advantages in terms of costs and access to markets.

D. Over the next several years, Israel can look forward to very substantial real economic growth, accompanied by a high rate of inflation. Gross national product is likely to rise from about \$5 billion in 1971 to about \$8 billion in 1976; at that stage Israeli incomes will approximate those now common in prosperous West European countries. Foreign exchange considerations are unlikely to interfere with attainment of these goals. Foreign gifts and loans currently exceed \$1.5 billion annually; they would probably have to fall below \$1 billion before reserve drawdown became severe enough to force serious changes in economic growth policies.

E. Knesset elections scheduled for the fall of 1973 are unlikely to bring about immediate major changes in the top ranks of the Israeli Government. Pre-election maneuvering for advantage, however, probably will result in passage of expensive welfare legislation and in relaxation of already ineffective government efforts to control inflation. Elections also are likely to affect the evolution of Israeli policy toward the occupied areas.

~~SECRET~~

~~SECRET~~

F. Israeli attitudes toward retention of Arab territories seem certain to harden further as time goes on. The continuing movement of Israelis into the areas will contribute to the process. At present, there are about 40 Israeli settlements in the territories; by the mid-1970s, there probably will be close to 60. In addition, at least 25,000 Israelis will then be living in portions of greater Jerusalem that were under Jordanian control until June 1967.

G. The Israelis clearly intend to retain substantial portions of occupied territory. They are searching for a way to do so without seriously diluting the Jewish character of Israel. Thus far, however, the conceptual framework has not been devised, and policy toward the Arabs in the occupied territories tends to evolve gradually from piecemeal decisions. The best hope for maintaining a Jewish majority in the future state, whatever role Arabs play in it, lies in immigration from the USSR. Problems stemming partly from the flow of immigrants, including increased financial burdens and exacerbated social strains, are worrisome but far from critical.

H. Much of Israel's frustration with the outside world—and the outside world's periodic frustration with Israel—stems from a very fundamental difference in perception. Outsiders keep trying to promote change in the Arab-Israeli situation in the hope of effecting improvement. The Israelis are trying to prevent change in the hope of staving off deterioration. They are extremely skeptical that any major change would work to their own advantage. They are most unlikely to accept a peace agreement that depends on Arabs acting in good faith. They want to continue on their present course until the Arabs are anxious for an agreement, not reluctantly willing.

I. Israel's policy toward the superpowers will continue to be a balancing act designed to keep the US as a friend and to avoid antagonizing the USSR unnecessarily, while pursuing two major goals. It wants to maximize the flow to Israel of arms and money—coming largely from the US—and immigrants—coming increasingly from the USSR. Tel Aviv also strives to avoid the extremes of Arab-Israeli tensions that could lead the US and the USSR either into diplomatic agreements at the expense of Israel or into physical confrontation in the area. Given the role that military aid to the Arabs plays in main-

~~SECRET~~

~~SECRET~~

taining the Soviet position in the Middle East, real Soviet-Israeli cordiality is a remote prospect. So long as the Israelis remain uneasy about Soviet motives and intentions, they will continue to seek the insurance against disaster that only a very large and very strong ally such as the US can provide.

DISCUSSION

I. THE ATMOSPHERE

1. Israel still has problems aplenty, but they are largely the results of military, diplomatic, and economic success, rather than reflections of external threat and internal weakness. Israelis today are confident that their military preparedness will insure the survival of the state, although deeply ingrained fears and uncertainties—about a potential Arab/Soviet threat and about the dangers of relying on the US—remain. Today there is no recession, no unemployment, no imminent Arab threat, no worry about arms supply, no balance of payments drain, and no shortage of new immigrants. Best of all, there is no pressure—either from inside the country or from the US—to make territorial concessions to the Arabs. Instead, the Israelis are struggling to adjust to new and disorienting affluence, a stream of immigrants, and the problems of governing a large Arab population.

2. Thus, a sense of confidence in a promising, secure future currently permeates the debates, quarrels, recriminations, crises, and compromises that typify Israeli political life. The single most important variable essential to this mood is Israel's assessment of the attitude of the US. The concerted Israeli effort to become economically and militarily self-sufficient, particularly since the June 1967 war, has necessitated a short-run increase of their dependence on US assistance. Despite their ardent declarations that they are a self-sufficient people, they realize that they are still critically dependent on US goodwill and material assistance. Israelis are acutely sensitive to any indication—however tenuous—that US support for their cause might be waning.

3. The Arabs, whether they are across the borders or under Israeli control, are a constant source of concern, but have shown no capacity to create the kind of trouble or to make the kind of convincing political gestures that could cause the Israelis to question their own funda-

mental policies and convictions. Events such as the slaughter at Lod Airport in late May 1972 generate anger and grief, but they do not undermine the fundamental Israeli conviction that Israel is in the Middle East to stay. Convinced that they understand the Arabs, the Israelis are little given to questioning past actions or fretting about future difficulties. Rather they go on from day to day, taking the steps that seem desirable at the moment while seeking to keep their long-range options as open as possible.

4. In fact, the Israelis are reasonably satisfied with the status quo in their relations with the Arabs and the major powers. They are extremely skeptical that a change—in the form either of intensified military activity or of intensified diplomatic action—would work to Israel's advantage. The Israeli leadership no doubt has plans for either contingency, but it is preparing more actively for years of stalemate than for great change. As Israelis see it, the practical problem is to consolidate their own military and economic strength within the existing framework of relations with other states.

II. MILITARY PROGRAMS

A. Forces Envisaged

5. Decisions made in the name of national security place limits on all other facets of Israeli policy. It is clear from both public and private statements that the Israelis expect no major military attack from any Arab quarter in the near future. Defense Minister Dayan's late May statement that an Egyptian attack was unlikely at least until sometime in 1973 was only the most recent reflection of growing Israeli conviction that Arab leaders recognize Arab unpreparedness. From the Israeli point

of view, maintaining superiority great enough and apparent enough to cope with minor incidents and to dissuade the Arabs from seriously considering an assault on Israeli-held territory is the single most important policy imperative. Israel will, therefore, continue to improve its military forces.

6. The Israeli Defense Force (IDF) has been steadily strengthened since the June 1967 war. It is now well equipped with modern weapons, primarily of US manufacture. It is, as before, manned by highly trained and competent professionals and conscripts, with a remarkable 250,000-man reserve force which can be called up within a week. The total number of men and women on active duty has increased from around 90,000 just after the war to about 120,000. In the same time period, the number of combat aircraft has doubled—from 166 to over 300, the tank inventory has increased from 1,250 to over 1,500, and the number of armored personnel carriers has been increased from about 1,500 to more than 3,000. The navy, which had a dozen or so active combat vessels at the war's end, now has twice as many. Qualitatively, the improvement has been even more marked than numbers alone would suggest, since much old equipment has been retired and replaced with more modern and more powerful counterparts.

7. Personnel expansion will probably continue in the next few years, although at a somewhat slower rate. In part, this judgment is based on the manpower needed to operate equipment now on order. By 1976, the air force probably will receive 300 new fighter-bombers. Even if many of the older fighters now in use are transferred to standby reserve status, active duty units will have almost 40 percent more planes in 1976 than in 1972. Plans to acquire new armored personnel car-

riers, plans for series production of an Israeli tank, and plans to commission at least 15 medium and small combat vessels during the next four years may require a modest expansion of ground and naval forces.¹ More sophisticated equipment requires increased maintenance. Furthermore, with universal conscription, the number of draftees continues to increase as the population grows; the military training establishment—which probably involves some 25,000 people or roughly a quarter of the active duty force—must adjust both to the larger number of conscriptees in the basic training cycle and to the additional training requirements ancillary to new and more complex weaponry. Without any major change in the ceasefire lines or any major outbreak of hostilities, therefore, the IDF is likely to have about 130,000 active duty personnel by 1976.

B. Procurement and Production

8. Israel's heavy military purchases in the past few years are a reflection of three overlapping aspects of procurement policy. Israel's determination to obtain as much equipment as practicable, whenever possible, to guard against the effects of a future embargo has been a traditional mainstay of Israeli thinking, and it remains compelling. Interest in developing a military manufacturing capability as further insurance against an embargo has long been prevalent, but it has become increasingly important in practice as Israel's industrial capacity has increased and the Israelis have come to look on exports of arms manufactured or assembled in Israel as potentially lucrative as well as politically appealing. These two ideas underlay an Israeli forecast formulated in 1969, as the basis for a request to the US for assistance, that envisaged imports of military equipment and military-industrial goods

¹ See Annex A for further discussion.

totaling some \$2.1 billion in value during 1970-1972 and a further \$2.3 billion during 1973-1975.

9. The Israelis had barely begun to implement these plans when the massive buildup of Egypt's air defense system and the introduction of large numbers of Soviet personnel into that system added a third element. Israel rapidly began seeking additional equipment—largely aircraft, other sophisticated weaponry, and electronic gear intended to counter the missiles in Egypt. Israel requested and is receiving some \$300-\$400 million worth of weapons from the US that were not envisaged in its 1969 forecast. Israel also appears to be importing equipment and goods for its military industries well in excess of the amounts planned in 1969, although information on this subject is fragmentary and unclear. In any event, military-related imports during 1970-1972 actually totaled \$2.6 billion or more; they may come to \$3.0 billion or more in 1973-1975.

Aircraft

10. Israel's interest in simultaneously pursuing all possibilities in the search for military hardware is illustrated by its plans for advanced fighter aircraft. In its 1969 forecast, the IDF was planning for its cumulative purchases of US aircraft to reach 75 F-4s and 200 A-4s—at a total price of about \$600 million—by mid-1973. Israeli requests escalated in the face of the Soviet buildup of Egypt's air defenses, and the US thus far has approved sales of about 125 F-4s and 250 A-4s. As the delivery schedule stands, the value of deliveries will reach \$850 million by mid-1973 and about \$1 billion by the end of 1974. Attrition losses have been small, and most of these planes presumably will still be flying in 1975, unless there is another major round of fighting in which the Israelis suffer severe air losses.

11. By that time, Israel will have a substantial domestic fighter industry (See Table). Since the summer of 1971, Israeli Aircraft Industries (IAI), owned by the government, has been assembling Mirage 5 aircraft from structural parts and engines purchased in France. By late 1973 or early 1974, the IDF will have about 50 IAI-assembled Mirages. Initial stages in the production of an Israeli-made fighter apparently are being integrated with the Mirage assembly program. The project will produce about 110 fighters by 1976, consisting of a modified and strengthened version of a Mirage frame powered by a J-79 engine. Several US companies, as well as French and West German firms, have contracted to manufacture certain key airframe parts. An initial production run of at least 80 planes is to incorporate these components. A capability for domestic manufacture is being worked in by linking contracts for airframe parts with purchase of the tooling to make them. In similar fashion, Israel has purchased 50 complete engines from General Electric, received 20 more in kit form for assembly in Israel, and hopes to initiate domestic production of engines under a license agreement. The delivery schedule for components points toward rollout of the first Israeli fighter in late 1972 or early 1973. Production and assembly programs will overlap in 1973-1974; by 1975, Israel will have assembled 60 or so of the new planes, and those coming off the production line will be made primarily from locally manufactured parts. Total costs for both programs through 1976 are estimated at \$600 million or more.

Missiles and Other Weapons

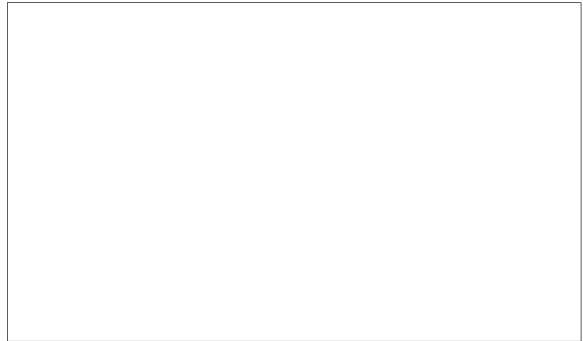
12. Israel has been involved in an expensive program to develop and produce a short-range ballistic missile for at least a decade. In 1963, Israel contracted with Dassault, a French firm, to develop a 260 nautical mile missile system which the French called the MD-620. Development work went on in France for about five years, producing a two-stage, solid-propellant missile some 45 feet in length and designed to carry a variety of warheads. In June 1968, the contract was renegotiated; Dassault agreed to turn over to Israel all the remaining production tooling and check-out equipment as well as the 10 or so missiles not expended in the French test program. At that point, the Israelis had paid Dassault at least \$100 million; the major remaining development problem was the inertial guidance system, which had been a persistent difficulty.

13. To support production of the missile, which they called the Jericho, the Israelis have constructed a number of major facilities in Israel which have probably involved another \$100 million or so in payments to foreign suppliers since the early 1960s. These include a solid-propellant motor research and development facility, propellant production and test facilities, and a missile assembly and check-out plant. The Israelis have continued to purchase missile testing equipment in the US suitable for a missile of the Jericho type, and sporadic reports of plans for deployment have been received [redacted] No assembled missiles have been seen in Israel, however, and none is known to have been flight tested there.

ESTIMATED SUPERSONIC JET FIGHTER PRODUCTION—ISRAEL

	1971-1972	1973	1974	1975	1976	TOTALS
Mirages (assembled) . . .	25	20	5	—	—	50
Israeli Fighters (assembled/produced)	—	5	20	35	50	110
Cumulative Total	25	50	75	110	160	160

Deployment seems to have been delayed and it appears that the Israelis have been improving the missile or that the guidance problems persist. In any case, the amount of money and effort devoted to the ballistic missile program, coupled with the known characteristics of the 1968-style Jericho, strongly suggest that the missile the Israelis are working on is not intended solely for use with conventional high explosive warheads.



16. Israel already produces more than 80 percent of the ordnance used by its army, including guns, mortars, and rockets, and it is pursuing a wide variety of other weapons programs. It is developing a family of aircraft rockets, including an air-to-air missile similar to the US Sidewinder and an Israeli version of the US Zuni air-to-surface rocket. The army recently tested a new solid-propellant unguided tactical rocket of Israeli design which can deliver a payload of 250 pounds to a range of 23 miles. A prototype for a tank of Israeli design should be ready for testing by the end of 1972, and the Israelis plan to have it in production by 1975. Except for engines and transmissions, which Israel plans to obtain in the US, all sub-assemblies will be locally fabricated from raw materials purchased abroad. A prototype of a lightweight armored reconnaissance vehicle capable of transporting eight troops has been designed and field tested. Two missile-equipped fast patrol boats, out of a planned total of at least half a dozen, are nearing completion at the Haifa shipyards. A hydrofoil missile patrol boat is slated to follow in the late 1970s. One ship-borne missile already is in production and is being exported; an improved version is in the final stages of development.

17. Barring some major change in its arms plans and requirements, Israel will be virtually independent of foreign suppliers by the latter

half of the 1970s. Through acquisition of weapons, technological competence, and diligent training, Israel will remain militarily superior to its Arab neighbors for many years. The Israelis will be able to repulse any combination of Arab forces—which continue to lag behind in skill and morale—that might line up against Israel and able also to inflict devastating damage on their Arab neighbors.

III. HANDLING THE ARABS

18. Israel's military programs have political, as well as military, aims. At present, the physical protection of Israel against assault is only a minor aspect of the problem; neither the Palestinians nor the Egyptians currently pose a serious threat to Israeli life or property. Although the Israelis have no expectation of imminent major Egyptian military attack, they are determined to be fully prepared for anything from an all-out attack to a minor Egyptian military effort. Any Israeli response to an incident will be designed to stop military activity, rather than escalate it. The Israelis hope, by periodically demonstrating their overwhelming superiority, to convince the Egyptian Government that it has no alternative but to seek a political settlement.

19. Sadat's various public and private statements of willingness to reach some sort of peace agreement with Israel are a sharp break with the Egyptian past, but they fall far short of satisfying Tel Aviv's requirements. Initially, the Israelis were taken aback by Sadat's 1971 "peace offensive"; some Israelis were ready to test his intentions. The Israeli Government delayed, however, both because formulation of a response was politically difficult and because Israel's leaders were skeptical; they wanted the Egyptians to be anxious for settlement, not reluctantly willing. Sadat saw Israel's delay and US silence as evidence of a trick and feared the consequences within the

Arab world of his non-belligerent stance; ultimately, he renewed the flow of aggressive rhetoric, confirming Israeli skepticism and removing—so far as the Israelis were concerned—any need to test his intentions by making concessions, verbal or otherwise.

20. The gulf between the two thus remains very wide. The Israelis, pointing to repeated Arab violations of various undertakings and agreements, have little faith that any agreement entered into by any Egyptian Government would be honored. An agreement satisfactory to Israel would, by definition, be unsatisfactory to the Arabs. The Israelis are most unlikely to take chances on Arab good faith in the interests of reaching a potentially hazardous agreement, since there is no domestic pressure for one, nor any compelling external pressure to make accommodations, for that matter. Indeed, the gradual hardening of the government's position on the future disposition of the occupied areas—which has been particularly marked over the past year or so—has been welcomed by most Israelis.

21. In the immediate postwar weeks, the Israeli Government declared that it had no desire to retain any occupied territory other than East Jerusalem. Before the end of 1967, however, it dropped its public declarations opposing annexation and officially fell silent. As the occupation continued, the Arabs prepared for and resumed limited hostilities, and Israeli citizens again began to die at Arab hands. Personal, unofficial suggestions for settling and retaining various areas were bruited about by individuals inside and outside the government. Most widely discussed was the formulation initially put forward in July 1967 by Deputy Prime Minister Allon.³

³ The Allon Plan envisaged permanent Israeli settlement and control of strategic areas, e.g., the Jordan Valley, along with some form of autonomy for heavily populated Arab areas not vital to Israeli security.

At first, the Allon Plan received no official sanction and aroused considerable criticism as being far too acquisitive. With the passage of time, however, the Arabs of the occupied areas proved docile on the whole; Israelis began to settle in their midst, in carefully controlled and guarded areas generally conforming to the Allon Plan, and they were seldom injured or threatened.

22. Over time, the possibility of a negotiated settlement seems to the Israelis to have receded into the distant future, and the security, sentimental, and/or economic attractions of certain parcels of land have become more apparent. Government policy now includes retention of the Golan Heights and Gaza within the future borders of Israel and continuing Israeli physical control of Sharm al-Shaykh and of a substantial share of the West Bank including a strip along the Jordan River. There are now around 40 Israeli settlements in the territories (see map). They probably have a population of about 3,500. Most are paramilitary settlements or cooperative farms set up with government assistance and approval. In several instances, however, most notably Hebron, Israelis have moved in and defied government efforts to make them leave. The government has gone along with the *fait accompli*. The government decision to build housing units in the northern, eastern, and southern suburbs of Old Jerusalem was hastened by the tremendous demand for settlement in these neighborhoods on the part of Israeli citizens, and some 5,000 or so Israelis may already have established residence. Altogether, the government has expropriated about 4,000 acres of land in greater Jerusalem, of which some 3,000 acres were owned by Arabs. Under current plans, between 15,000 and 25,000 housing units, for 60,000 to 100,000 people eventually will be built on this land.

23. The process of "creating facts" is a time-honored Israeli procedure that will con-

tinue to be pursued in the occupied areas. By the mid-1970s, there probably will be close to 60 Israeli settlements, with some 15,000 Israeli inhabitants, in the Golan Heights, the West Bank, Gaza, and the eastern half of Siani. At least 25,000 others will be living in portions of greater Jerusalem that were under Jordanian control until June 1967. As settlement proceeds, government policy and public opinion seem certain to harden further on the issue of the areas that Israel should retain in any settlement that might be negotiated. This hardening process will be reinforced by trends in domestic Israeli politics.

IV. THE KNESSET ELECTIONS OF 1973

24. Knesset (Parliament) elections, due to be held in the fall of 1973, are likely to affect the evolution of Israeli policy toward the occupied areas. The current outlines of official government policy are likely to become the minimum basis for formulating the Labor Party platform plank on this issue. Since Labor inevitably will form the government, its platform, in turn, will become the minimum basis for negotiating a post-election coalition agreement with other parties. Thus, even the relative "doves" in the post-election government would be bound to a fairly hardline position.

25. Elections, moreover, require administrative actions such as definitions of voter eligibility and location of polling booths that might alter the legal status of portions of the territories. In 1969, the Arabs of East Jerusalem were permitted to vote in municipal elections but not in national elections. This time, they may get full voting privileges; no other action would be consistent with repeated Israeli declarations that East Jerusalem is now part of Israel. Measures similar to the 1969 arrangement for East Jerusalem may be tried in the thinly populated Golan Heights, where there has already been some talk of forming local

branches of Israeli political parties for the several thousand Syrian Druzes there. It is less likely that any sort of election will be undertaken in Gaza, which is thickly populated by Arabs. Some legal foundation also is likely to be laid for voting by Israeli civilians resident in Golan, Sinai, Gaza, and the various West Bank enclaves.

A. The Leadership

26. The elections are highly unlikely to bring about immediate major changes in the top ranks of the Israeli Government. The Labor Party, or one of its direct antecedents, has always held far and away the largest block of seats in the Knesset, and the inflexibility of Israeli voting patterns virtually guarantees that it will once again win a plurality. Its leader, therefore, will be the Prime Minister. Mrs. Meir dominates the Labor Party; she has tremendous personal popularity and the virtue—highly esteemed by the Israeli public—of being acceptable as Prime Minister to all major figures in the Labor Party as well as its coalition partners. Although she recently has spoken of retirement and probably does hanker to relinquish her office, she almost certainly will be persuaded that duty to party and country demands that she spend at least another year or two in office. Should she be incapacitated, the most likely replacement is Finance Minister Sapir; he is in poor health and lacks charisma but has the proper party strength and credentials and is the choice least likely to create a crisis within the party.

27. Deputy Prime Minister Allon and Defense Minister Dayan tend to block each other; neither is likely to be selected as Prime Minister so long as both are contenders. Each has a devoted following, and Dayan—on a purely popularity basis—probably is second only to Mrs. Meir in domestic appeal. But popularity is not the key to Labor politics.

Allon and Dayan are arch-rivals of long-standing; neither appears willing to work for the other, and the Labor Party, as well as the Israeli public, would far rather have them both in subordinate positions than risk losing the services of one by elevating the other. Two other military heroes—Ambassador to the US Rabin and Minister of Commerce and Industry Bar Lev (the last two Chiefs of Staff) appear to be ruled out, for the time being, by lack of proven loyalty and service to the party structure and by the party and government crisis likely to flow from the elevation of either over the heads of Dayan and Allon. Should health problems eliminate both Mrs. Meir and Sapir, therefore, a compromise candidate probably would be chosen from among those who have served the Party long and faithfully. It might be any one of several relatively colorless ministers or party functionaries. It might even be Histadrut Secretary General Ben Aharon.

28. The Histadrut (Federation of Labor), a uniquely Israeli institution, was formed in Mandate days as a voluntary association through which Jewish labor activists in Palestine pooled their meager resources to provide social and economic services to the trade union elements of the Jewish community. It established schools, hospitals, and factories. At independence, its schools formed the nucleus of the state school system. Since the establishment of the state, it has more and more become concerned with economic interests—that is, with benefits for the workers. In short, it has come to more nearly resemble a labor union. However, it continues to be the country's largest single employer, by virtue of its ownership of industrial establishments.

29. The relationship between the Labor Party and the Histadrut is intimate; union membership is prerequisite to membership in the Labor Party. Cooperation with the Party is the only sure way to get ahead in the Histadrut. Party and union, working together

through the Party leaders of each body, formulate the Cabinet position—and thus the government policy—on all issues of urgent concern to the workers. In theory, policies are implemented through the party discipline that governs all concerned. In reality, the various interests of the party/union complex—as government, as worker representative, as political competitor, as employer—often come into conflict. In a recent crisis, Mrs. Meir inserted herself as mediator in a wage dispute. Ben Aharon, who has a long record of party service and an excellent reputation as a dedicated social reformer and friend of the worker, resigned in protest at this government intervention. He was persuaded to return to office, probably in exchange for implicit or explicit promises involving future wage agreements as well as his own position. The resolution of the wage dispute itself was typical—grounds were found for justifying raises in excess of the government's guidelines.

B. Impact on Domestic Policy

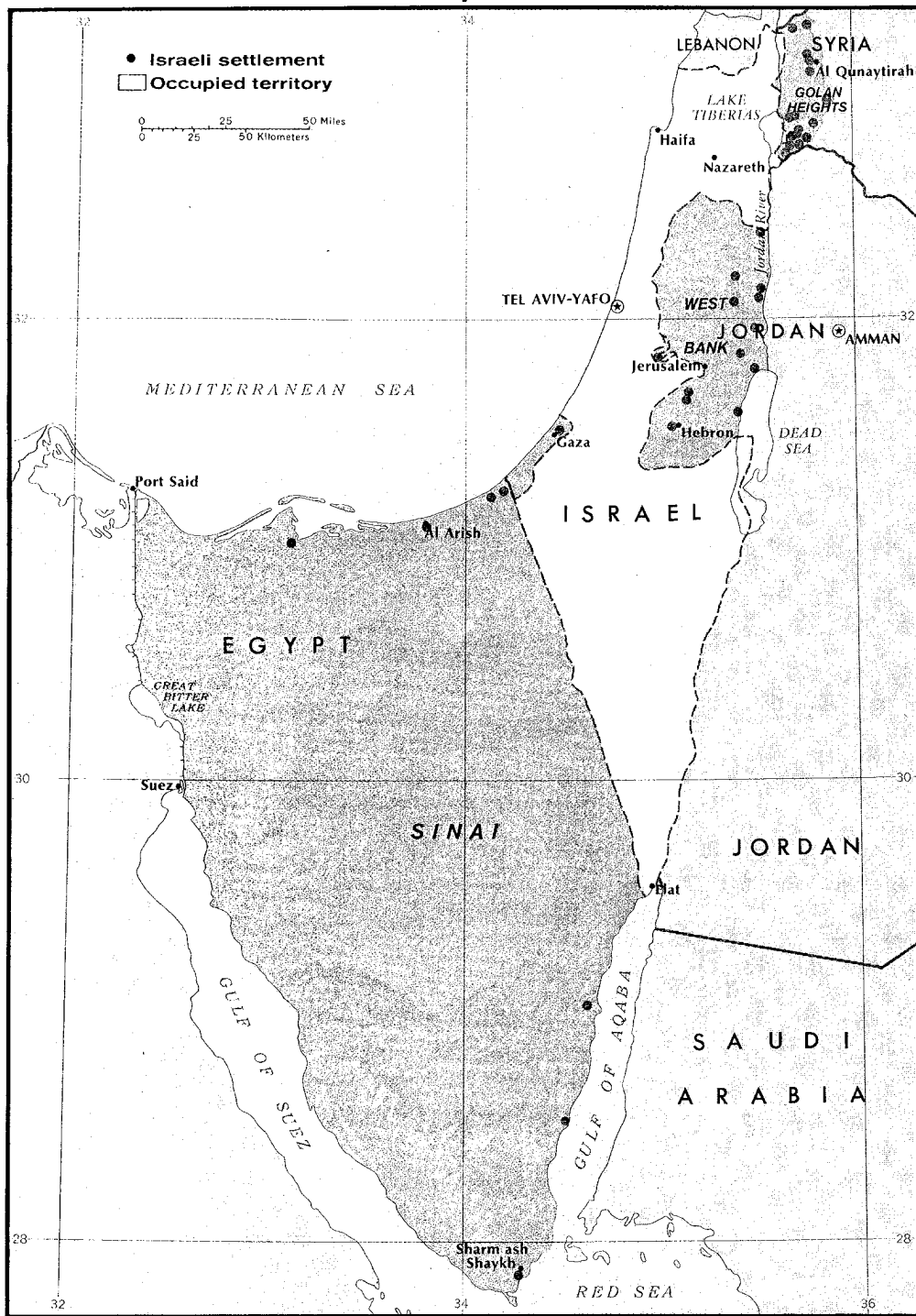
30. It is in the fields of economic and social policy that election year politics are likely to make their most powerful impact. The Labor Party is a merger of several socialist groups. Its ideology—when translated into individual opinions on income distribution, social organization, and ownership of production facilities—includes virtually every shade of opinion except outright communism and unfettered capitalism. In effect, it occupies the middle six lanes of an eight lane road. The broad ideological spectrum, coupled with a system of voting by state-wide lists, makes Labor electoral triumph relatively easy and Labor policy formulation and implementation extremely difficult.

31. The largest electoral competitor is Gahal. An electoral alliance, it combines the Liberals, who espouse enlightened free enterprise, and Herut—a party notable for its antecedents among the anti-British terrorist

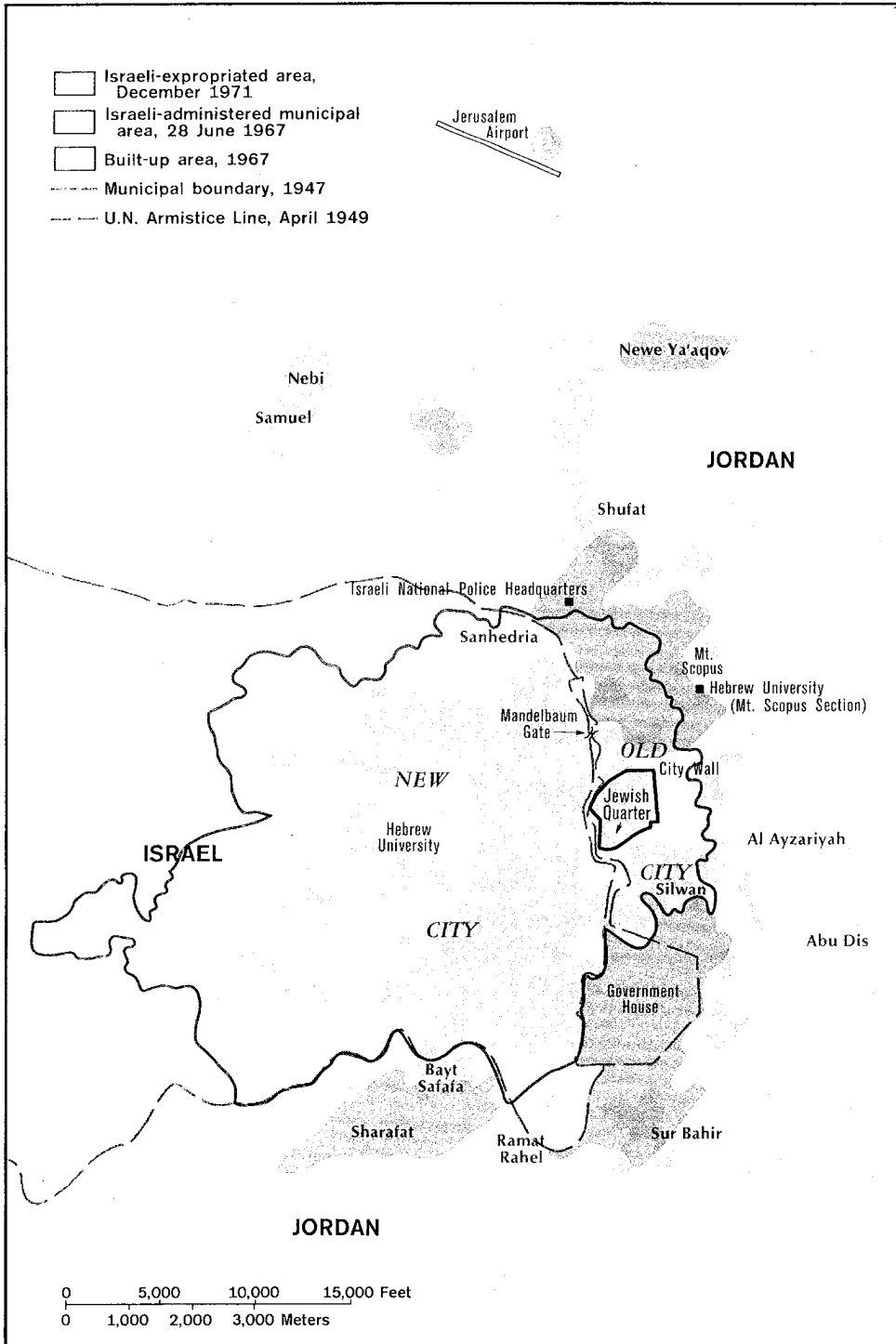
movement and its unabashed demand for maximum territorial expansion. Gahal joined the government coalition in 1969 but left again in 1970, when the Israeli Government went on record as willing to negotiate the possibility of some return of territory to the Arabs. Since Gahal returned to the opposition, it has found a following among the economically and socially disadvantaged in Israel, because it has championed them as victims of the establishment. Its electoral prospects have also been somewhat brightened by the upsurge of immigration from the USSR. A number of recently arrived Russian Jews, apparently reacting against anything associated with socialism, have shocked the Labor Party by seeking affiliation with Gahal.

32. From Labor's point of view, Gahal's electoral strength is a very real challenge; Gahal has no hope of winning control of the government, but it now appears to be in a position to reduce Labor's plurality in the Knesset. If elections were held in the immediate future, most Israelis believe that Gahal would increase its share of Knesset seats from 26 to more than 30 (out of 120), Labor (in alignment with left-wing Mapam) would shrink from 56 to 53 or so, and Labor's traditional coalition partner, the National Religious Party (NRP) might lose one or two of its current 12. Ten or so Knesset seats usually fall to extremists—ultraorthodox religious groups who have opposed the state itself as contrary to religious law and two Communist groups—who cannot be counted on as coalition members. If Gahal's appeal remains steady or grows until the elections, Labor, Mapam and the NRP together might fall short of a majority, and Labor could have serious problems in negotiating a solid coalition. Formation of a government, therefore, could entail important concessions to other splinter parties, either in the form of policy agreements or in the form of control of key ministries.

Israeli Settlements in the Occupied Territories



Israeli Administration in Jerusalem



33. Bent on minimizing this danger, the Labor government will be inclined to try to negate the growth of Gahal's popular appeal by shifting its own position on key issues before election time. Its best bet for winning potential Gahal votes is more welfare legislation—programs such as increased family allowances, special provisions for citizens of Oriental background, additional emphasis on housing for newly married couples, and beefed-up programs to appeal to Russian immigrants. Concurrently, fearful of defections from its own membership, Labor in its governmental incarnation will be increasingly unwilling to oppose union demands for large wage increases or to introduce and enforce any of the economic austerity measures that the Finance Ministry, the Bank of Israel, and the academic economists have been urging. For example, both the cost of living allowances and the wage guidelines to be negotiated in early 1973 are likely to be even more generous than usual. The economic costs of staking out positions for the coming election are, therefore, likely to be extremely high.

V. RAMPANT PROSPERITY

34. Economically, things are so good in Israel that the country's political and financial institutions—which developed over a long period of perpetual shortage and austerity—are faced with problems and challenges for which they are ill-equipped. Since 1967, GNP has risen 45 percent, private consumption has gone up 35 percent, government consumption has risen 60 percent, investment has more than doubled. In per capita terms, real income has risen 60 percent in the past decade, making the average Israeli about as well off as the average Englishman. If recent growth rates are maintained for the next several years, Israeli incomes will approximate those now common in prosperous West European countries. Industrial capacity is fully utilized, jobs are

going begging, and imports which once were luxuries are considered necessities. Thanks to foreign gifts and loans, the balance of payments, traditionally a matter of great concern, is running a large and growing surplus. The only really worrisome difficulty is inflation, which stems mainly from the combination of full capacity production and booming demand, supported by a massive inflow of foreign exchange. Prices have risen about 25 percent in the last two years; they currently are going up about one percent each month. Theoretically, the government could slow or stop inflation in one of several ways, but the necessary measures fly in the face of political and international imperatives as perceived by Israelis.

35. Israel is in the unusual position of having both a chronic current account deficit and a favorable balance of payments position. Habitually, the current deficit has been offset by gifts and loans from abroad. After the June 1967 war, Tel Aviv felt impelled to increase its defense spending at home and abroad at a rapid rate. It also took advantage of a sudden inflow of funds from world Jewry to pump up the economy, which had been in a serious recession in the two prewar years. When both civilians and defense imports soared and exports failed to keep pace, foreign exchange reserves plummeted. Faced with a choice between curtailing spending or becoming increasingly dependent on aid, the Israelis turned to Jews abroad and to the US Government for more money. The response, as it happened, was greater than they forecast, and the need was less. The result was a major upsurge of foreign exchange reserves, from about \$400 million at the end of 1969 to over \$1 billion in early 1972.

36. The influx of foreign money added purchasing power in a period when the labor force was fully employed, and the government's determination to build up the domestic

defense industry aggravated the shortage of workers. Booming prosperity, coupled with financial incentives, attracted foreigners both as immigrants and as contract employees, adding new demand for housing, transportation, and the whole array of goods and services provided by a modern economy. Workers, although more prosperous than ever before, recognized that they were in a strong position, and strikes became common. Employers, with unfilled orders on hand and no pool of unemployed to call upon, were willing to pay whatever was necessary and legal. The government, dominated by a union-based political party, was ineffective in enforcing austerity. Indeed, with foreign reserves rising for the past two years, the public has seen no need for austerity.

37. As long as the inflow of foreign money continues to grow, Israel can continue its present economic policies without serious repercussions. In a foreign-trade oriented economy, the most serious impact of inflation is a deteriorating foreign competitive position. In Israel, where foreign spending is not limited by foreign earning, this is not a vital concern. Prospective receipts of foreign exchange are sufficient to finance an annual increase of civilian imports in excess of 10 percent. Further imports can be financed, if necessary, by drawing down foreign exchange reserves. Repeated devaluations (Israel has undertaken seven in its 25 year history) and additional export subsidies can be used to maintain the profitability of exports.

38. Israeli confidence in the balance of payments outlook is underscored by recent discussions of import liberalization as a means to check inflation. The idea of deflecting demand from domestic products to imported products obviously rests on the presumption that current levels of foreign, private, and official aid will not be seriously affected by Israeli eco-

nomic policy. There is a remarkable contrast between this attitude and the near crisis atmosphere of 1969, during which Israel passed or proposed a series of forced saving measures at home to convince the foreign Jewish community and the US Government that Israelis themselves were making severe economic sacrifices in an attempt to make ends meet.

39. The government could slow down the economic boom and the accompanying inflation by more fundamental adjustments, but the actions required are politically distasteful or potentially dangerous from the Israeli point of view. Heavy domestic investment can be curtailed; this, however, means retarding the growth of defense industry—which is seen as a security risk—and slowing the economic growth rate—which is seen as detrimental to the attraction and retention of immigrants. The severe recession of 1965-1966, brought on by an over-rigorous austerity program, is a fresh and painful memory. Foreign exchange inflows can be curtailed—by refusing new loans or repaying old ones ahead of schedule—but this runs contrary to every instinct in a country that has suffered from foreign exchange shortages in the past and fears foreign exchange shortages in the future. Wages and prices can be held down by heavier taxation and curtailed social service expenditures—but this is emotionally repugnant and politically dangerous in the Israeli context. Given the inflow of foreign money, such steps appear unnecessary to the Israelis. In existing circumstances, therefore, an average annual price increase of 10 percent or so is likely to prevail over the next few years.

40. The availability of labor, which is normally a constraint on growth in a full employment economy, has not been a serious limitation in Israel in the past several years. A severe shortage of Israeli labor has been met primarily by hiring an increasing number of

Arabs from the occupied territories, and even a few workers from such countries as Yugoslavia and Italy to fill vacant jobs. The natural increase of population combined with immigration at the levels of recent months increases the Israeli labor force by some 4 percent a year. If military force levels remained steady, productivity increases on the order of the 4 percent annually attained in the recent past would permit growth to proceed at 8 percent without any need for additional Arab laborers. However, we expect the military forces to need 10,000 or so additional personnel by 1976. Moreover, the tendency of workers in a prosperous country to curtail their working hours as wages rise is likely to lead to more jobs for Arabs from the occupied areas.

41. In these circumstances, the incremental need for Arab workers appears likely to be on the order of 5 or 10 percent a year, rather than the doubling that occurred in 1970 and again in 1971. As a proportion of the work force, the non-citizen Arabs might increase from about 4 percent in 1971 to something approaching 5 percent by 1976. If per capita productivity stagnates or immigration falls off, employment can be increased by hiring additional Arabs. Given the existence of substantial numbers of potential workers in Gaza and the ability of Israeli employers to pay high wages, attainment of full employment conditions on the West Bank only slightly interferes with this process. If economic growth is slower than expected or worker productivity rises rapidly, Arab workers can be laid off without domestic political repercussions.

42. Aid from official and private sources in the US has been of crucial importance to Israel's balance of payments position. Official aid has increased sharply since the 1967 war, as the US has become Israel's principal source of military equipment and has financed a large share of Israel's equipment

purchases. Official aid is running in excess of \$500 million a year, in the form of grants, loans, and loan guarantees. Of the 1972 total, \$300 million in loans and loan guarantees was tied directly to purchases of military hardware, and a \$50 million grant was provided as security supporting assistance. Private assistance by US citizens is comparable in amount to official aid, and a large proportion of it is in the form of gifts. Private aid receded in 1968 following a tremendous upsurge in the year of the war; however, it subsequently has increased steadily.

43. Foreign exchange considerations are unlikely to interfere with Israeli economic objectives in the next few years. With an economic growth rate of 8 percent, the current account deficit probably will amount to about \$1.3 billion in 1972 and in 1973. Civilian exports are growing more rapidly than civilian imports; when imports of finished military equipment peak (probably by 1974), the deficit should begin to fall fairly rapidly. If efforts to encourage exports are pursued successfully and imports are kept under control, the current deficit probably will decline to about \$850 million in 1976 (see table). Foreign gifts and loans now exceed \$1.5 billion annually. Israel is, therefore, continuing to accumulate reserves. If the sum of private assistance and German restitution payments remains near current levels, as seems likely, Israel could dispense with extraordinary US Government assistance. Indeed, unearned income from abroad probably would have to fall below \$1 billion annually before reserve draw-down became severe enough to force serious changes in economic growth policies.

44. Thus the emphasis in present Israeli economic policy is not on retarding inflation or conserving foreign exchange; rather, it is on fostering substantial economic growth and maintaining full employment, while satisfying

~~SECRET~~

BALANCE OF PAYMENTS
(Million 1971 US Dollars)

	1971	1974	1976
	ACTUAL	FORECAST	FORECAST
A. Imports	2,917	3,800	4,200
Finished Military Equipment	532	650	400
Other Goods (including imports for defense industry) ..	1,670	2,200	2,650
Services	715	950	1,150
B. Exports	1,713	2,600	3,350
Goods	903	1,400	1,750
Services	810	1,200	1,600
C. Deficit on Current Account (B-A)	1,204	1,200	850
D. Unilateral Transfers	745	750	750
Institutions (largely United Jewish Appeal)	265	300	300
German Restitutions	220	200	200
Personal (largely immigrants' remittances)	260	250	250
E. Deficit after Transfers (D-C)	459	450	100
F. Net Inflow of Capital Excluding Extraordinary US Assistance	485	450	400
G. Surplus (F-E)	26	0	300
H. Extraordinary US Assistance	305
I. Final Surplus (H-G)*	331	0	300

*Reflection of short-term capital movements, errors and omissions, and changes in reserves.

military needs. With such policies, Israel probably can continue the 7 to 8 percent real growth rate of the past two years into the middle of the 1970s, reaching a GNP in 1976 of roughly 32 billion Israeli pounds (about \$8 billion) in 1971 prices compared to about 22 billion pounds (\$5 billion) in 1971. This would amount to a per capita GNP of over \$2,000 and per capita resources of over \$3,000. The projected growth of GNP allows for a 10 percent annual increase in domestic investment and public consumption increasing at about the same rate as GNP, with private consumption rising less rapidly.

45. An appreciable part of the expected growth will come from military-related industries. Production of military-related goods will total over \$500 million this year; it is expected to double by 1976, while other industrial production rises about 50 percent. At that stage, output of military goods would account for

about one-fifth of industrial output, with the proportion continuing to rise. Employment in defense industry, which has doubled since 1967, will continue to rise rapidly, tying the job market increasingly to the weapons market. Exports of relatively simple military products have been extremely successful in the past. As the proportion of industrial capacity and talented personnel devoted to weapons manufacture increases, however, the economy will become more and more dependent on finding buyers for complex items Israel needs only in small quantities and can produce only at high cost. Israel will have difficulty competing with other producers, most of them larger and many of them well established in certain lines. By late in the 1970s, it could find itself the owner of expensive facilities for producing sophisticated weapons it can neither use nor sell.⁴

⁴ See Annex B for a discussion of this subject as illustrated by the Gabriel Missile Program.

46. Israel's defense spending probably will continue to grow. A 10 percent increase in the number of active duty personnel, coupled with a 3 to 4 percent annual increase in real wages, will raise personnel costs some 30 percent by 1976. Foreign procurement costs in budget terms (that is, before allowing for foreign credits) will remain high, at least until 1974, when US deliveries of aircraft now on order are to be completed. According to present Israeli plans, defense imports will decline by 1976, and domestic production will provide most of the goods needed by the IDF. At that stage, Israel will be substantially independent of foreign arms suppliers. If it also succeeds in becoming a major arms exporter, its reliance on foreign money also could begin to decline. In real terms, the total defense budget probably will increase about 30 percent by 1976 (see table). If price increases in the economy as a whole proceed as rapidly as we estimate in the preceding paragraphs, the military bill could easily double in money terms.

ESTIMATED DEFENSE BUDGET

	(Million 1972 Israeli Pounds ^a)	
	1972 ^b	1976 ^c
Wages	500	650
Transfers (primarily pensions)	340	500
Construction	160	100
Weapons Procurement		
Domestic	1,900	4,000
Imports	2,640	1,700
Industrial Goods ^d	600	1,200
Total	6,140	8,150

^a Calculated at the current official rate of 4.2 Israeli pounds=\$1.00.

^b Based on data revealed by Israel in connection with Draft Budget for April 1972-March 1973.

^c Compiled from estimated personnel levels and data on Israeli defense production and defense import plans.

^d Figure is incomplete in that it includes only those industrial goods imported directly by the Ministry of Defense; imports of defense manufacturing firms are not included in the defense budget.

VI. SOME SOCIAL CHALLENGES—
IDEOLOGIES AND REALITIES

47. In the concept of its designers and pioneers, Israel was to be Jewish, egalitarian, and politically liberal. The overriding requirements of security, however, have always forced compromises of these ends, and the challenges of the 1970s—unforeseen in the days when Zionism was formulated as an idea—will force the Israelis to make new and difficult choices.

48. There are compelling arguments for increasing the ties between Israel and the West Bank. The territory is a security asset, and the workers are becoming more and more important to Israel's current prosperity. Yet, the demography of the situation conflicts with the concept that Israel should be a Jewish state. At present there are about 2.7 million Jews and 1.35 million Arabs in the area under Israeli control, but only about 300,000 of the Arabs are Israeli citizens. Including the population of East Jerusalem would bring the number of Arab citizens to 375,000; adding the Arabs now in Gaza would bring it to 725,000. If all occupied areas are retained, Jewish immigration continues at moderate levels, and there is no mass exodus of Arabs, the Arab population within the area Israel now controls could begin to approach the Jewish population by about the year 2000.

49. The Israelis clearly intend to retain substantial portions of occupied territory. They are searching for a way to do so without seriously diluting the Jewish character of Israel. The notion of some form of semi-autonomous Palestinian entity is being discussed informally, but it remains an amorphous concept. What Israel is groping for is some new concept of different classes of citizens under Israeli hegemony that could be made acceptable to such allies as the US. So long as the conceptual framework has not been devised, however, Israeli policy is likely

to result largely from the day-to-day decisions of Defense Minister Dayan and his military government subordinates. Dayan has proven so adept at identifying steps that can be taken without creating either strong opposition from the Arabs of the occupied areas or an unacceptable outburst of indignation in world councils that the rest of the Israeli Government is increasingly inclined to trust his judgment.

50. Israel's best hope for maintaining the largest possible Jewish majority in the future state, whatever its form, lies in a substantial inflow of Jews from the USSR. Immigration from Russia was negligible until mid-1968, when the Soviets eased their restrictions on this particular group of citizens anxious to depart. About 3,000 Soviet Jews emigrated in 1969 and about 1,000 followed in 1970. In the spring of 1971, the rate increased, and 100 a day were arriving by December, bringing the 1971 total to about 14,000. Experience in the early months of 1972 points to a further increase, to some 30,000 in the full year. Since about 2.5 million Jews remain in the USSR, 50,000 or more are born annually, and at least half a million of those now alive probably are potential immigrants, continuation of the exodus at the current rate depends largely on Soviet policy. Because no single reason for the recent liberalization of Moscow's attitude can be firmly adduced, and Soviet policy can be reversed without warning, future Soviet actions are uncertain. In this case, however, the easiest explanation may be the most accurate—Moscow may simply wish to rid itself of a group that has been publicly agitating, before a world audience alerted by continuing Israeli publicity. In this circumstance, the flow of immigrants could continue almost indefinitely, or even grow considerably.

51. Immigration is helpful to the Israelis in that it adds to the Jewish majority and is

extremely welcome psychologically, but it exacerbates some of the problems that have been persistent, though not critical, difficulties since independence. The costs of attracting and settling new immigrants are high; the 44,000 immigrants who arrived from all sources in 1971 may cost the state \$300 million or more for temporary housing, special education arrangements, training for new employment, and various financial inducements aimed largely at attracting immigrants from the West. Judging from past experiences, about a third eventually will leave, despite these benefits.

52. Immigrant absorption is, of course, a popular cause among both Israelis and other Jews, and funds to cover the costs are being raised. However, complaints from those immigrants who are disappointed by the material or social conditions in Israel anger many Israelis who lived in a far less prosperous, far more dangerous Israel not many years past. Moreover, concessions to new immigrants stir up resentment among Israel's own poor, emphasis on attracting Westerners annoys Israelis of Oriental background, and the great publicity about Russians gives new fervor to accusations that the "establishment" is discriminating in favor of its own kind at the expense of the rest of the country.

53. The deep cultural, economic, and political differences between Ashkenazi Jews (those of European background) and their Oriental countrymen is the most persistent of the various overlapping, intertwining social splits in Israel. The Oriental Jews generally are on the bottom of the socio-economic ladder, and their chances of improving their relative position are hampered by lower educational levels, a paucity of high-income skills, and a higher birth rate. They, or their parents, were born and raised primarily in the Arab world, where many were relatively privileged in terms of education and income, though not in political or social status. In Israel, the

entire atmosphere works against them; the social and economic system was designed and installed by Ashkenazis and is still run by Ashkenazis and their native-born descendants.

54. Substantial effort aimed at ameliorating the Oriental problem has come from the Ashkenazi-dominated government, and in turn from the Ashkenazi-dominated Labor Party. The Party has assigned a number of Orientals to safe places on Knesset voting lists, pushed Orientals ahead in local governments, and named a Yemeni as its own Secretary General, subsequently making him Speaker of the Knesset. The government has directed the armed forces into substantial efforts along these lines and has undertaken other educational programs, as well as various welfare measures. However, the major efforts are directed at recasting Orientals (who make up more than half of the present population and are increasing their proportion) into a Western mold. Eventually, assumption of political power in Israel by a new generation could bring about an evolutionary solution, since there clearly is less separation—physically and emotionally—among the young. In the meantime, progress will remain slow, both because of the nature of the problem and because of the many other demands on financial resources.

VII. RELATIONS WITH OUTSIDE POWERS

55. Much of Israel's frustration with the outside world—and the outside world's periodic frustration with Israel—stems from a very fundamental difference in perception. The superpowers, the European States, the Arabs, the various bodies of the UN, the Wise Men of the Organization of African Unity, the Prime Minister of Malta, and sundry other individuals and groups keep trying to promote change in the Arab-Israeli situation in the hope of effecting improvement. The

Israelis are trying to prevent change in the hope of staving off deterioration. They thus see the superpowers not as separable entities but as two interacting and balancing elements to be kept in their present roles as far as possible.

56. The attitudes and policies of Europe and the Third World are viewed by Israel in the context of this balance. The French have abandoned their role as special friend of Israel in favor of a campaign to regain influence in the Arab world, leaving Israel without any urgent interests to protect in Europe. Nevertheless, the French, the British, and the Germans have some influence on the actions of both the US and the USSR. The Israelis recognize that the Europeans will not remain wholly inactive and thus strive to retain as much European sympathy as possible and to minimize European propensity for urging outsiders to interfere between the Israelis and the Arabs. Tel Aviv puts less stock than it once did in the prospect of winning acceptance as a part of the Third World and concomitant support against the Arabs, but—of course—it still has a variety of reasons for wanting as many friends as possible in the world at large.

57. From the Israeli point of view, the US is friend and the USSR is foe, but nothing about either relationship is simple. The US is first and foremost a source of arms. That consideration will remain paramount to the Israelis for several years, but it will diminish as Israel becomes more and more independent of arms imports. Israel's need for financial support from the US preceded the arms relationship and will outlive it; Israel can do without either US Government aid or private financial assistance from American Jews, but it cannot pursue its present military and economic policies in the absence of both. The least pressing, yet most durable, role the US plays

is as a potential buffer against the possibility of a combined military threat from the Soviets and the Arabs. Because US friendship is so vital to Israel, a minor unpleasantness between the two has far more importance to the Israelis than anything Israel's enemies say or most of the things they do.

58. The Soviet-Israeli relationship is more enigmatic than that between the US and Israel. There is a psychological tie, rooted in the Central and East European birth of the Israeli Zionist idea and of many of Israel's leaders, that leaves Israelis both attracted and repelled by Moscow. The USSR exacerbates the Arab threat to Israel by providing the Arabs with huge quantities of military equipment and some thousands of personnel, and by giving firm diplomatic support to its Arab allies. These obviously are hostile acts, but they stop far short of the level of encouragement and assistance that would enable the Arabs to mount a serious threat to Israel. In choosing to permit emigration from the USSR to Israel, the Soviets have given Tel Aviv new reason to hope for an improved relationship as well as additional reason to fear a deteriorating one.

59. Israel's policy toward the superpowers will continue to be a balancing act designed to keep the US as friend and to avoid antagonizing the USSR unnecessarily, while pursuing two major goals. First and foremost Israel wants to maximize the flow to Israel of arms, money, and immigrants. So long as its own strength is maintained, it has no reason to fear the Arabs. One result of this attitude is that Israel would not be a willing party to any agreement to control the flow of arms to the area during the next several years. Concurrently, it is anxious to avoid the extremes of Arab-Israeli tension that could lead the US and the USSR into either diplomatic agreements at the expense of Israel or physical confrontation in the area.

60. The introduction of Soviet personnel into the Egyptian air defense system thus would appear to have diminished any predisposition for a major and sustained Israeli military attack on Egypt. Confident though the Israelis are of their ability to handle the Arabs militarily, they are aware that the risk to planes and pilots has risen. They must be concerned that any attack that was successful in military terms could lead to yet another expansion of the Soviet military establishment in Egypt. Moreover, the Israelis surely worry that a major flare-up, or widespread conviction that one was imminent, would reinvigorate the outside diplomatic efforts to intervene or interfere between themselves and the Arabs that they find so distasteful. In these circumstances, the Israelis are more likely to reply to any Arab military action with a brief but devastating counterattack on a carefully selected target than to use the kind of measured response, spread over time, that would involve higher risk of escalating gradually into another all-out war.

61. Major improvement in Soviet-Israeli relations is not likely. Israel will, of course, welcome any evidence of diminished Soviet hostility. It almost certainly will accept an offer of full and normal diplomatic relations, if the initiative comes from Moscow. It will not, however, curry favor with Moscow by curtailing its efforts to encourage the exodus of Russian Jews. Nor will it repose any trust in Soviet promises so long as the Soviets supply arms to the Arabs and the Arabs remain hostile to Israel. Given the role that military aid to the Arabs plays in maintaining the Soviet position in the Middle East, therefore, real Soviet-Israeli cordiality is a remote prospect.

62. Israel is not, at the moment, seriously unhappy with any important aspect of its relations with the US. The weapons that the US has already agreed to provide and the

~~SECRET~~

technological data that Israel expects to get will satisfy most of the military needs Israel can now foresee. Future requests are likely to center primarily on technology and on small components that can be provided with relatively little fanfare. Refusal to provide items of particular sensitivity is not likely to bring on an acute crisis in the relationship; there soon will be little the Israelis cannot make for themselves if the felt need is vital.

63. Over time, however, there are likely to be marked changes in specific aspects of US-Israeli affairs. By the late 1970s, Israel seems certain to be more populous, more prosperous,

and more self-confident than it is today; it may even have a markedly changed leadership. Its dependence on the US for arms and financial aid is likely to be much diminished. The psychological strings, however, probably will endure. So long as the Israelis remain uneasy about Soviet motives and intentions, they will continue to seek the insurance against disaster that only a very large and very strong ally can provide. The relationship that evolves from the complex interaction of attitudes and interests in the US and in Israel may be different in many details, but it probably will remain close.

~~SECRET~~

~~SECRET~~

ANNEX A

NEW MILITARY EQUIPMENT AND ITS MANPOWER
REQUIREMENTS

~~SECRET~~

THIS PAGE WAS INTENTIONALLY LEFT BLANK

NEW MILITARY EQUIPMENT AND ITS MANPOWER REQUIREMENTS

Air Force

1. By 1976, the air force probably will have taken delivery of nearly 300 new fighter-bombers—about 140 purchased from the US and the balance assembled or produced in Israel. It has 253 first-line planes of this type at present, along with 51 older fighters (see table). Some 35 older aircraft already have been placed in reserve; more will follow as new planes enter the inventory. If 120 or so planes are placed in reserve, active duty units will have about 470 planes, organized in 19 squadrons, by 1976. This probably will entail an increase in active duty air force personnel from 16,200 at present to 19,000-20,000.

Ground Forces

2. The tank being developed by Israeli Military Industries probably will be in production by 1975. Based on projected production rates, some 200 of these new tanks could be available to the Israeli Defense Force (IDF) by the end of 1976. They will be used to

replace existing inventory or in the reorganization of tactical units—both active and reserve.

3. The Israelis probably will introduce other weapons and equipment that will require additional ground force personnel. Among the items being hurried along are tactical rocket launchers, armored personnel carriers, and self-propelled artillery.

Navy

4. Israel's Navy is scheduled to commission 6 large, Israeli-built, guided-missile patrol boats, at least 6 US-built Swift patrol boats, and 3 British-built small submarines during 1973-1976. The operational requirements of these boats, along with the additional shore-based personnel to support them, probably will entail some expansion of the navy from its present 4,000-man regular strength.

Reserves

5. Some expansion of the 250,000-man reserve force also is likely.

FIGHTERS AND FIGHTER-BOMBERS IN THE ISRAELI AIR FORCE

	JUNE 1972 ORGANIZATION		PROJECTED 1976 ORGANIZATION			
	Planes	Squadrons	Planes		Squadrons	
			Active	Reserve	Active	Reserve
<i>Supersonic</i>						
Mirages and Variants	41	2	160	40	8	2
Phantoms	84	4	120	..	5	..
<i>Subsonic</i>						
Skyhawks	128	5	190	30	6	1
Other	51	2	..	50	..	2
TOTAL	304	13	470	120	19	5

THIS PAGE WAS INTENTIONALLY LEFT BLANK

~~SECRET~~

ANNEX B

SOME IMPLICATIONS OF THE GROWTH OF
DEFENSE INDUSTRY

~~SECRET~~

THIS PAGE WAS INTENTIONALLY LEFT BLANK

SOME IMPLICATIONS OF THE GROWTH OF DEFENSE INDUSTRY

1. Israel's own weapons market is necessarily limited. The Gabriel Missile Program, and its relationship to other Israeli Aircraft Industries (IAI) activities, is illustrative.

2. After four years of research and development, IAI began series production of Gabriel ship-launched surface-to-surface missiles in 1968. Its present facilities can manufacture at least 15 copies per month of the first version of the Gabriel, which has a range of about 11 n.m. A Gabriel II, with a range of 25 n.m., is scheduled to go into production in the second half of 1972, but it may be delayed. Israel's Navy has 12 missile boats, equipped to carry up to 8 missiles each. Thus the existing production capacity clearly exceeds present Israeli needs.

3. Exports are the obvious answer, but the idea is easier to formulate than to accomplish. Costs in Israel tend to be high. The unit cost of the Gabriel I is at least \$90,000; on-board launch and fire-control equipment costs an additional \$250,000. The Gabriel II will cost 20 percent more. A substantial number of the potential customers for sophisticated military equipment prefer to shop elsewhere. Some are constrained by political considerations. All must be aware that exports could be cut off in the event of another Arab-Israeli flare-up. Israel does not, at least as yet, provide generous credit terms to buyers as an export incentive. The French, who have established

themselves as a reliable, credit-extending, skilled source of arms, are manufacturing a competitor—the EXOCET—with twice the range of the Gabriel I. So far as we know IAI, despite widespread efforts, has sold only a few.

4. The Gabriel is relatively small, simple, and inexpensive, as weapons and military equipment go. If IAI concentrated personnel and resources on it, problems of production and sales would be diminished. IAI's 14,000 employees design, manufacture and sell a wide range of other products and services, including two small civilian aircraft, a variety of aircraft parts, assorted electronics and navigation gear, and a full range of aircraft overhaul services. The question is whether IAI can continue doing all those things, recondition and sell used Boeing 707s, manufacture and sell a variety of missiles, manufacture and sell supersonic jet fighters, and begin the design and development of whatever the IDF wants for its next generation of missiles and planes. If IAI proves to have serious problems, and similar problems come to be typical of a substantial portion of the defense industry, it is clearly possible—though by no means certain—that within the next few years Israel will have a sizable share of its personnel and resources devoted to manufacturing arms in quantities Israel does not need and will have trouble selling.

THIS PAGE WAS INTENTIONALLY LEFT BLANK

CENTRAL INTELLIGENCE AGENCY

DISSEMINATION NOTICE

1. This document was disseminated by the Central Intelligence Agency. This copy is for the information and use of the recipient and of persons under his jurisdiction on a need-to-know basis. Additional essential dissemination may be authorized by the following officials within their respective departments:

- a. Director of Intelligence and Research, for the Department of State
- b. Director, Defense Intelligence Agency, for the Office of the Secretary of Defense and the organization of the Joint Chiefs of Staff
- c. Assistant Chief of Staff for Intelligence, Department of the Army, for the Department of the Army
- d. Assistant Chief of Naval Operations (Intelligence), for the Department of the Navy
- e. Assistant Chief of Staff, Intelligence, USAF, for the Department of the Air Force
- f. Director of Intelligence, AEC, for the Atomic Energy Commission
- g. Assistant Director, FBI, for the Federal Bureau of Investigation
- h. Director of NSA, for the National Security Agency
- i. Special Assistant to the Secretary of the Treasury, for the Department of the Treasury
- j. Director of Central Reference Service, CIA, for any other Department or Agency

2. This document may be retained, or destroyed by burning in accordance with applicable security regulations, or returned to the Central Intelligence Agency by arrangement with the Central Reference Service, CIA.

3. When this document is disseminated overseas, the overseas recipients may retain it for a period not in excess of one year. At the end of this period, the document should either be destroyed, returned to the forwarding agency, or permission should be requested of the forwarding agency to retain it in accordance with IAC-D-69/2, 22 June 1953.

4. The title of this document when used separately from the text should be classified: ~~FOR OFFICIAL USE ONLY~~

DISTRIBUTION:

White House
National Security Council
Department of State
Department of Defense
Atomic Energy Commission
Federal Bureau of Investigation
Department of the Treasury